



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

April 30, 2002

Number: **200232013**
Release Date: 8/9/2002
CC:PA:APJP:B1
POSTF-154186-01
UILC: 6511.00-00; 6621.00-00

INTERNAL REVENUE SERVICE NATIONAL OFFICE LEGAL ADVICE

MEMORANDUM FOR MARK A. O'LEARY
ASSOCIATE AREA COUNSEL, LMSB

FROM: John J. McGreevy
Assistant to the Branch Chief, Branch 1
Administrative Provisions & Judicial Practice
CC:PA:APJP

SUBJECT: Interest Netting

This Chief Counsel Advice responds to your memorandum dated January 29, 2002. In accordance with I.R.C. § 6110(k)(3), this Chief Counsel Advice should not be cited as precedent.

LEGEND

Taxpayer
Year 1
Year 2
Year 3
Year 4
Year 5
Year 6
Year 7
Year 8
Year 9
Year 10
Year 11
Year 12
Year 13
Year 15
Amount a

Amount b
Amount c
Amount d
Amount e
Amount f
Amount g
Amount h
Amount i

ISSUE

Whether Taxpayer would have been able to file timely claims on July 22, 1998 for underpayment interest under section 6511 of the Internal Revenue Code ("Code") for its Year 1-Year 5 taxable years?

CONCLUSION

Taxpayer would not have been able to file timely claims on July 22, 1998 for underpayment interest under section 6511 of the Code for certain of its Year 1-Year 5 underpayments.

FACTS

Year 1

Taxpayer had a deficiency for Year 1 of Amount a. Taxpayer paid the deficiency on May 29, Year 6. Taxpayer had an additional deficiency for Year 1 of Amount b. Taxpayer paid the deficiency on May 17, Year 13.

Year 2

Taxpayer had a deficiency for Year 2 of Amount c. Taxpayer paid the deficiency on May 29, Year 6.

Year 3

Taxpayer had a deficiency for Year 3 of Amount d. Taxpayer paid the deficiency on March 4, Year 8. Taxpayer had an additional deficiency for Year 3 of Amount e. Taxpayer paid the deficiency on September 1, Year 11.

Year 4

Taxpayer had a deficiency for Year 4 of Amount f. Taxpayer paid the deficiency on March 4, Year 8. Taxpayer had an additional deficiency for Year 4 of Amount g.

Taxpayer paid the deficiency on May 27, Year 8. Taxpayer had another deficiency for Year 4 of Amount h. Taxpayer paid the deficiency on September 15, Year 11.

Year 5

Taxpayer had a deficiency for Year 5 of Amount i. Taxpayer paid the deficiency on September 8, Year 9.

LAW AND ANALYSIS

Section 6621(d) of the Code provides that, for any period, interest is payable under subchapter A and allowable under subchapter B on equivalent underpayments and overpayments by the same taxpayer of tax imposed by this title, the net rate of interest under this section on such amounts shall be zero for such period.

Section 6621(d) applies to interest accruing for periods beginning before the effective date of July 22, 1998, provided, the taxpayer files a request for interest netting as required by Rev. Proc. 99-43, 1999-2 C.B. 579.

Rev. Proc. 99-43 sets forth a three-prong test for filling a timely request for interest netting. First the period of limitation for claiming a credit or refund of the underpayment interest and the period of limitation for claiming additional overpayment interest must both have been open on July 22, 1998. Second, the taxpayer must reasonably identify and establish the period for which the net rate of zero applies. Third, a valid request for interest netting must be filed with the Internal Revenue Service no later than December 31, 1999. However, the taxpayer need not take any action by December 31, 1999, if at least one of the applicable periods of limitation will be open after December 31, 1999. In that case, the taxpayer must file a claim prior to the expiration of the later period of limitation. The applicable periods of limitation can be found in section 6511 of the Code, for underpayment interest, and 28 U.S.C. sections 2401 and 2501, for overpayment interest.

Section 6511 provides, in general, that a claim for credit or refund of interest paid on an underpayment must be filed within 3 years from the time the tax return was filed or 2 years from the time the interest was paid, whichever period expires later.

Section 6511(b)(1) provides that no refund may be allowed or made after the expiration of the period of limitation for filing a claim for refund unless a claim for refund is filed by the taxpayer within such period.

CONCLUSIONS

Year 1

Taxpayer filed a Form 872, Consent to Extend the Time to Assess Tax, extending the period of assessment for Year 1 to September 30, Year 6. Taxpayer had a deficiency for Year 1 of Amount a. Taxpayer paid the deficiency on May 29, Year 6. Pursuant to section 6511, Taxpayer had two years from the time the interest was paid to file a claim for refund with the government. Accordingly, Taxpayer's period of limitation expired on May 29, Year 8. Therefore, Taxpayer could not file a timely claim for underpayment interest under section 6511 of the Code on July 22, 1998.

Taxpayer had an additional deficiency for Year 1 of Amount b. Taxpayer paid the deficiency on May 17, Year 13. Pursuant to section 6511, Taxpayer had two years from the time the interest was paid to file a claim for refund with the government. Accordingly, Taxpayer's period of limitation expired on May 17, Year 15. Therefore, Taxpayer could file a timely claim for underpayment interest under section 6511 of the Code on July 22, 1998.

Year 2

Taxpayer filed a Form 872 extending the period of assessment for Year 2 to September 15, Year 6. Taxpayer had a deficiency for Year 2 of Amount c. Taxpayer paid the deficiency on May 29, Year 6. Pursuant to section 6511, Taxpayer had two years from the time the interest was paid to file a claim for refund with the government. Accordingly, Taxpayer's period of limitation expired on May 29, Year 8. Therefore, Taxpayer could not file a timely claim for underpayment interest under section 6511 of the Code on July 22, 1998.

Year 3

Taxpayer filed a Form 872 extending the period of assessment for Year 3 to September 30, Year 11. Taxpayer had a deficiency for Year 3 of Amount d. Taxpayer paid the deficiency on March 4, Year 8. Pursuant to the terms in the Form 872, Plaintiff had six months after the termination of the Form 872 agreement to file a claim for refund with the government. (See generally Form 872, paragraph (3).) Accordingly, Taxpayer's period of limitation expired on March 30, Year 12. Therefore, Taxpayer could not file a timely claim for underpayment interest under section 6511 of the Code on July 22, 1998.

Taxpayer had an additional deficiency for Year 3 of Amount e. Taxpayer paid the deficiency on September 1, Year 11. Pursuant to section 6511, Taxpayer had two years from the time the interest was paid to file a claim for refund with the government. Accordingly, Taxpayer's period of limitation expired on September 1, Year 13. Therefore, Taxpayer could file a timely claim for underpayment interest under section 6511 of the Code on July 22, 1998.

Year 4

Taxpayer filed a Form 872 extending the period of assessment for Year 4 to September 30, Year 11. Taxpayer had a deficiency for Year 4 of Amount f. Taxpayer paid the deficiency on March 4, Year 8. Pursuant to Form 872, paragraph (3), Plaintiff had six months after the termination of the Form 872 agreement to file a claim for refund with the government. Accordingly, Taxpayer's period of limitation expired on March 30, Year 12. Therefore, Taxpayer could not file a timely claim for underpayment interest under section 6511 of the Code on July 22, 1998.

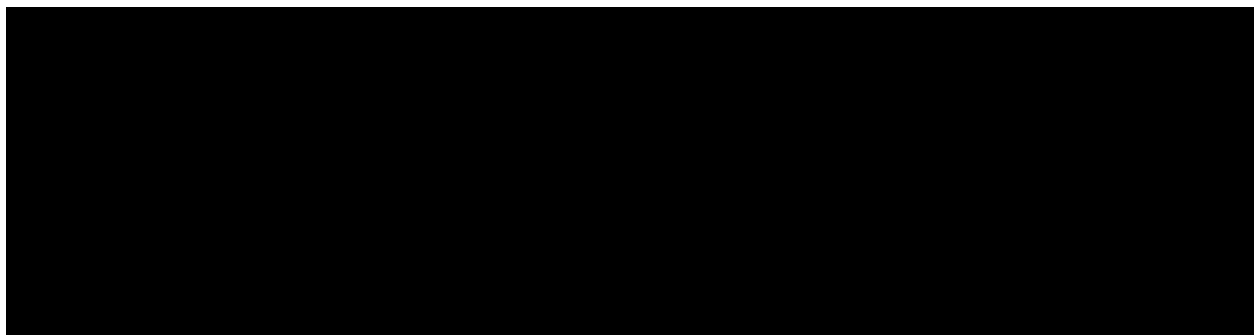
Taxpayer had an additional deficiency for Year 4 of Amount g. Taxpayer paid the deficiency on May 27, Year 8. Pursuant to Form 872, paragraph (3), Plaintiff had six months after the termination of the Form 872 agreement to file a claim for refund with the government. Accordingly, Taxpayer's period of limitation expired on March 30, Year 12. Therefore, Taxpayer could not file a timely claim for underpayment interest under section 6511 of the Code on July 22, 1998.

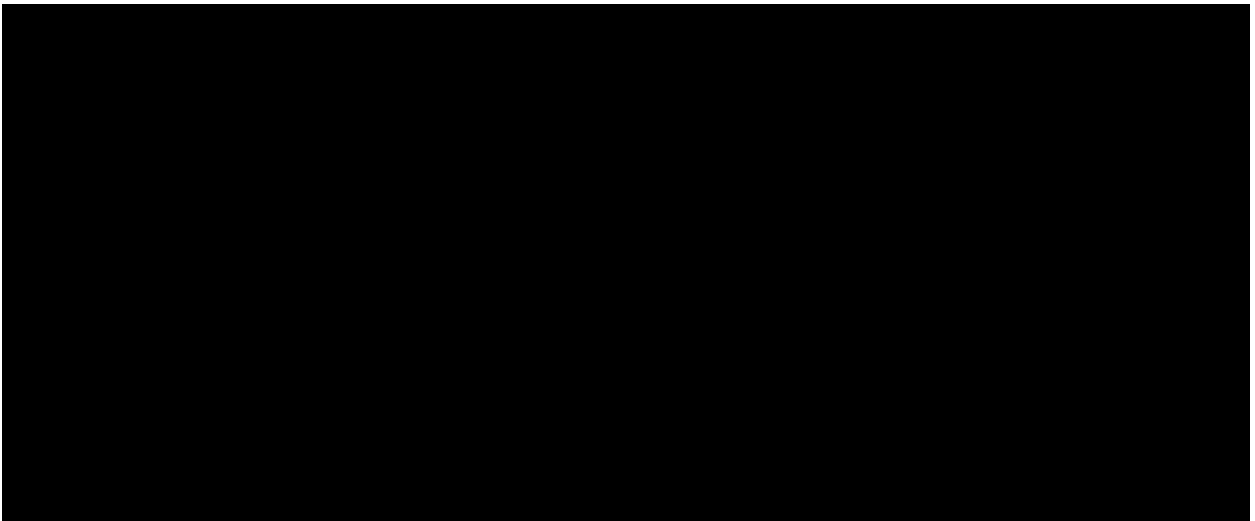
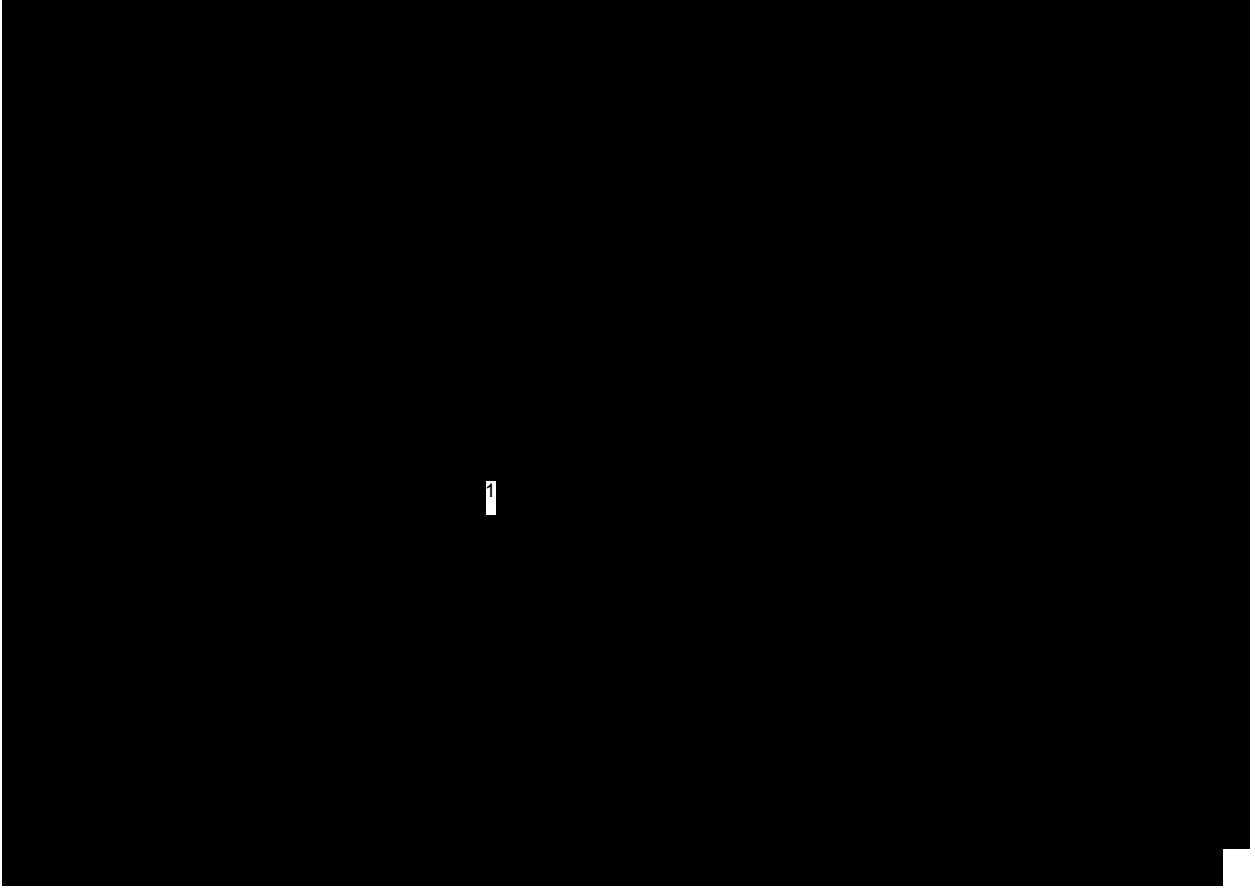
Taxpayer had another deficiency for Year 4 of Amount h. Taxpayer paid the deficiency on September 15, Year 11. Pursuant to section 6511, Taxpayer had two years from the time the interest was paid to file a claim for refund with the government. Accordingly, Taxpayer's period of limitation expired on September 15, Year 13. Therefore, Taxpayer could file a timely claim for underpayment interest under section 6511 of the Code on July 22, 1998.

Year 5

Taxpayer filed a Form 872 extending the period of assessment for Year 5 to February 29, Year 10. Taxpayer had a deficiency for Year 5 of Amount i. Taxpayer paid the deficiency on September 8, Year 9. Pursuant to section 6511, Taxpayer had two years from the time the interest was paid to file a claim for refund with the government. Accordingly, Taxpayer's period of limitation expired on September 8, Year 11. Therefore, Taxpayer could not file a timely claim for underpayment interest under section 6511 of the Code on July 22, 1998.

CASE DEVELOPMENT, HAZARDS AND OTHER CONSIDERATIONS





[REDACTED]

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If you have any questions, please call (202) 622-4910.